Funding the Future

Economic questions: the Joe Stiglitz question

Published: April 17, 2026, 7:15 am

This is one of a series of posts that will ask what the most pertinent question raised by a prominent influencer of political economy might have been, and what the relevance of that question might be today. There is a list of all posts in the series at the end of each entry. The origin of this series is noted here.

This series has been produced using what I describe as directed AI searches to establish positions with which I agree, followed by final editing before publication.

Why is Joe Stiglitz in this series? That is because he won the Nobel Prize in 2001 for his work on information asymmetry, which I think is his most important contribution to economics, although, perhaps as importantly, he has also been a public critic of neoliberal economics. Following his time at the World Bank, he challenged the policies of the International Monetary Fund and the Washington Consensus, most notably in his book, Globalisation and Its Discontents (2002). He argued at that time that whilst globalisation should be a force for good, market liberalisation and austerity have, too often, harmed developing economies.

His later work has focused on inequality, especially in The Price of Inequality (2012), in which he argued that economic disparities result from political choices and rent-seeking rather than market inevitability.

Stiglitz's books might have influenced me, but that said, I am not uncritical of his work. His books are often long on analysis and short on recommendations. That is because, like Mariana Mazzucato, he appears intent on reforming capitalism rather than replacing it, despite its inherent faults that will inevitably perpetuate the inequality he has criticised as its consequence.

Joseph Stiglitz has spent much of his career demonstrating that the core assumptions underpinning mainstream economics about perfect information, rational actors, and efficient markets are not just unrealistic, but fundamentally misleading. His work on

information asymmetry, for which he was awarded the Nobel Prize in economics, showed that when some participants know more than others, as always happens, markets do not function as theory predicts.

This insight is deceptively simple but deeply disruptive. If information is unevenly distributed, then prices do not reliably signal value, contracts do not fully allocate risk, and market outcomes cannot be assumed to be optimal.

Stiglitz's work therefore undermines one of the central claims of modern economics: that markets, left to themselves, tend toward efficient and fair outcomes.

Hence, the ***Joseph Stiglitz Question: If markets are riddled with information asymmetries, power imbalances and systemic failures, why do we continue to treat their outcomes as efficient, fair and self-correcting?***

Information asymmetry as the norm

Stiglitz showed that information asymmetry is not an exception but a defining feature of real markets. Sellers often know more about the quality of goods than buyers do. Employers know more about job conditions than workers do. Financial institutions possess complex information that ordinary investors cannot easily access or interpret.

This imbalance distorts decision-making. Markets may fail to allocate resources efficiently because participants cannot make fully informed choices. The idea of perfectly informed markets, central to much economic theory, collapses under this insight.

Markets that fail systematically

Stiglitz's work goes beyond identifying imperfections. He shows that information problems can lead to systematic market failures as a result of :

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Adverse selection, where low-quality goods drive out high-quality ones.

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Moral hazard, where individuals take greater risks because they do not bear the full consequences.

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Credit rationing, which occurs when lenders restrict access to finance even when borrowers are willing to pay higher interest rates.

These are not marginal issues. They are structural features of key markets, including finance, insurance and labour.

Markets do not merely fail occasionally. They fail in predictable ways.

The myth of trickle-down economics

Stiglitz has also been a prominent critic of the idea that economic growth will naturally benefit all members of society. He argues that when markets are distorted by power and inequality, the gains from growth are often captured disproportionately by those at the top.

Policies that prioritise deregulation, tax cuts for the wealthy and reduced public spending are often justified on the grounds that they will stimulate investment and benefit society as a whole. Stiglitz's analysis suggests otherwise. Without corrective measures, inequality can increase even as the economy grows.

Growth alone does not guarantee shared prosperity.

Financial markets and instability

Stiglitz has been particularly critical of financial markets, which are often presented as efficient mechanisms for allocating capital. In reality, these markets are highly susceptible to information problems, speculation and herd behaviour.

The global financial crisis of 2008 illustrated how these dynamics can lead to systemic instability. Complex financial products obscured risks, while incentives encouraged excessive risk-taking.

For Stiglitz, this was not an anomaly but a consequence of how financial markets operate under conditions of imperfect information.

Power and the shaping of markets

A key theme in Stiglitz's work is that markets are shaped by institutions and power. Rules governing property rights, competition, taxation and regulation influence how markets function and who benefits from them.

Economic outcomes are therefore not purely the result of impersonal forces. They reflect political decisions and institutional arrangements.

Recognising this challenges the idea that market outcomes are neutral or inevitable.

What answering the Joseph Stiglitz Question would require

Taking Stiglitz's insights seriously would require rethinking the role of markets and the

state. At minimum, this would involve:

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Acknowledging information asymmetry as a central feature of markets.

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Designing regulation to address systemic market failures, particularly in finance.

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Implementing policies to reduce inequality, ensuring that growth benefits society broadly.

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Strengthening public institutions that shape market outcomes.

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Recognising that markets require governance, rather than assuming they function best when left alone.

These steps would not reject markets. They would make them more effective and equitable.

Inference

The Joseph Stiglitz Question exposes a gap between economic theory and economic reality. While models often assume ideal conditions, real markets are characterised by imperfect information, unequal power and institutional constraints.

Stiglitz’s work demonstrates that these factors fundamentally alter how markets operate. Outcomes cannot be assumed to be efficient or fair simply because they arise from market processes.

To answer his question is to recognise that markets are not self-correcting systems but social institutions that require careful design and oversight, and that without such design, they are likely to produce inequality, instability and inefficiency rather than shared prosperity.